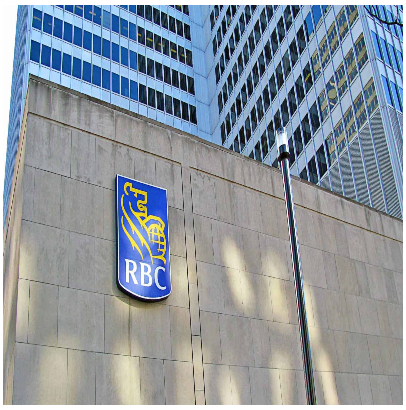

3 Reasons Investors Should Load Up on Canadian Bank Stocks Today

Description

The S&P/TSX Composite Index rose a paltry four points on April 13. This concluded yet another week that left investors with little to celebrate with the exception of a rally for commodities late in the week. In the first quarter of 2018, the TSX registered at 77th among 93 global exchanges. In spite of this early downturn, investors should not be despondent.

Canadian bank stocks offer enticing value as we now enter the third week of April. Let's look at three reasons you should be stacking these profit machines in your portfolio today.

Bank stocks are a bargain right now

Royal Bank of Canada (TSX:RY)(NYSE:RY) recently became the largest bank in Canada by total assets. Royal Bank stock has dropped 6.4% in 2018 as of close on April 13 but is up 1.5% year over year. **Bank of Montreal** (TSX:BMO)(NYSE:BMO) has declined 5.7% in 2018 so far and is down 2.5% year over year. **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) has plunged 10.1% in 2018 and is down 1.8% from the prior year.

The weighting of Canadian banks on the TSX makes up almost a quarter of the entire index at 24.1%. The forward price-to-earnings ratio on the TSX, which measures a current asset over its predicted earnings per share, sits well below the S&P 500 and is one of the best valued in the developed world.

Historically, Canadian banks have also finished the year strong. In October of last year, I'd recommended that investors pile in to bank stocks in preparation for a late run. Like last year, the slump in the first half of this year could provide investors with a remarkable opportunity to scoop up these stocks at a bargain.

NAFTA deal may be imminent

Global stock markets have been battered in the midst of a U.S.-China trade spat. Investors have been anxious, as analysts have warned that growing protectionism could severely curb global growth. There were early fears that U.S. president Donald Trump could give into his protectionist impulses and push for a NAFTA exit.

However, the Trump administration has eased its position toward its North American allies and an agreement now looks likely. In early April, President Trump said that an agreement on NAFTA was "close." On April 14, Vice President Mike Pence backed up the statements from Trump. "As the president said very recently, we think we are close," Pence said at a summit in Peru.

A NAFTA deal would serve as an injection of enthusiasm for markets that have been rattled over trade tensions in recent weeks.

Earnings remain strong, and banks are flush with cash

Bank earnings in the first quarter were strong, especially considering the slumping Canadian housing market. In the first quarter, Royal Bank reported 6.4% growth in its residential mortgage portfolio. Banks expect loan growth to slow in the wake of new mortgage rules and rate tightening, but this could also improve margins going forward.

Presently, Canadian banks are flush with cash, with the Big Six estimated to hold in excess of $14 billion in capital, according to a report from **Bank of Nova Scotia**. Royal Bank CEO Dave McKay has said that this flexibility, which represents the strongest position since 2013 for Canadian banks, is a huge positive going forward.

Royal Bank, CIBC, and BMO have also boasted solid performance in U.S. business in 2017 and the first quarter of 2018. Recent U.S. tax reform, which slashed corporate taxes from 35% to 21%, should be a huge boost for Canadian banks with a significant footprint south of the border.

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